

**REPORT OF THE AUDIT OF THE
FORMER PENDLETON COUNTY
SHERIFF**

**For The Year Ended
December 31, 2006**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE FORMER PENDLETON COUNTY SHERIFF

**For The Year Ended
December 31, 2006**

The Auditor of Public Accounts has completed the former Pendleton County Sheriff's audit for the year ended December 31, 2006. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees increased by \$7,684 from the prior year, resulting in excess fees of \$27,421 as of December 31, 2006. Revenues increased by \$29,082 from the prior year and expenditures increased by \$21,398.

Deposits:

The former Sheriff's deposits as of November 7, 2006 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$774,049

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Henry Bertram, Pendleton County Judge/Executive
The Honorable Lark O'Hara, Former Pendleton County Sheriff
The Honorable Charles Peoples, Pendleton County Sheriff
Members of the Pendleton County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the former Sheriff of Pendleton County, Kentucky, for the year ended December 31, 2006. This financial statement is the responsibility of the former Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepared the financial statement on a regulatory basis of accounting that demonstrated compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the former Sheriff for the year ended December 31, 2006, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated August 6, 2007, on our consideration of the former Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Henry Bertram, Pendleton County Judge/Executive
The Honorable Lark O'Hara, Former Pendleton County Sheriff
The Honorable Charles Peoples, Pendleton County Sheriff
Members of the Pendleton County Fiscal Court

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Pendleton County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

August 6, 2007

PENDLETON COUNTY
LARK O'HARA, FORMER SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2006

Revenues

State - Kentucky Law Enforcement		
Foundation Program Fund	\$	17,968

State Fees For Services:

Finance and Adm. Cabinet - HB 413	\$	10,661	
Court Time		6,516	
Sheriff Security Service - HB 452		<u>16,288</u>	33,465

Circuit Court Clerk:

Fines and Fees Collected			8,260
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Fiscal Court			74,512
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County Clerk - Delinquent Taxes			12,545
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Commission On Taxes Collected			201,293
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Fees Collected For Services:

Auto Inspections		4,195	
Accident and Police Reports		263	
Serving Papers		19,558	
Carrying Concealed Deadly Weapon Permits		<u>5,507</u>	29,523

Other:

Miscellaneous		10,820	
School Resource Officer		19,550	
Prisoner Transport		12,435	
10% Add-on Taxes		<u>25,519</u>	68,324

Interest Earned			9,528
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Borrowed Money:

Bank Loan - Payroll Account		19,000	
State Advancement		109,107	<u>128,107</u>

Total Revenues			<u>\$ 583,525</u>
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The accompanying notes are an integral part of this financial statement.

PENDLETON COUNTY
 LARK O'HARA, FORMER SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2006
 (Continued)

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$	85,528
Part-Time Salaries		6,000
Other Salaries		20,500
Overtime		9,020
Transport Officers		57,912
State - Kentucky Law Enforcement		
Foundation Program Fund		15,500
School Resource Officer		39,100
Range Instructor		1,500
Balliff Salary		2,236

Employees Benefits:

Employers Share Retirement		2,832
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Contracted Services-

Advertising		266
Vehicle Maintenance and Repairs		11,367

Materials and Supplies-

Office Materials and Supplies		2,143
Uniforms		2,733

Auto Expense-

Gasoline		38,137
Maintenance and Repairs		495
Mileage		5,372
Vehicle Insurance		256
Vehicle		8,220

Other Charges-

Conventions and Travel		907
Dues		370
Postage		2,810
Office Phones		2,370
K-9		700
Carrying Concealed Deadly Weapon Permits		3,380
Miscellaneous		1,856

Capital Outlay-

Office Equipment		10,667	
Vehicles		26,323	\$ 358,500

The accompanying notes are an integral part of this financial statement.

PENDLETON COUNTY
 LARK O'HARA, FORMER SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2006
 (Continued)

Expenditures (Continued)

Debt Service:

State Advancement	\$	109,107	
Bank Loan		<u>19,156</u>	<u>\$ 128,263</u>

Total Expenditures			<u>486,763</u>
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Net Revenues			96,762
Less: Statutory Maximum			<u>69,341</u>

Excess Fees Due County for 2006			27,421
Payments to Fiscal Court - December 31, 2006			27,176
- August 6, 2007			<u>245</u>

Balance Due Fiscal Court at Completion of Audit			<u><u>\$ 0</u></u>
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PENDLETON COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Former Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2006 services
- Reimbursements for 2006 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2006

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

PENDLETON COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2006
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 10.98 percent for the first six months and 13.19 percent for the last six months of the year. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 25.01 percent for the first six months and 28.21 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The former Sheriff did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 41.240(4). As of December 31, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of November 7, 2006, \$774,049 of public funds were exposed to custodial credit risk as follows.

- Uncollateralized and Uninsured \$774,049

PENDLETON COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2006
(Continued)

Note 4. Lease

The Office of the Sheriff was committed to a lease agreement with Farmers Bank & Capital Trust for two vehicles. The agreement requires an annual payment of \$16,974 for three years to be completed in 2007. The total remaining balance as of December 31, 2006 was \$16,974.

Note 5. Asset Forfeiture Account

The Office of the Sheriff maintained an Asset Forfeiture Account. The beginning balance on January 1, 2006 was \$2,350. Deposits were made during the year in the amount of \$39,365, and disbursements in the amount of \$40,376. As of December 31, 2006 the account balance was \$1,339.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Henry Bertram, Pendleton County Judge/Executive
The Honorable Lark O'Hara, Former Pendleton County Sheriff
The Honorable Charles Peoples, Pendleton County Sheriff
Members of the Pendleton County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the former Pendleton County Sheriff for the year ended December 31, 2006, and have issued our report thereon dated August 6, 2007. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Pendleton County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the former Pendleton County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the former Pendleton County Sheriff's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Pendleton County Sheriff's financial statement for the year ended December 31, 2006, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Pendleton County Fiscal Court, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

August 6, 2007

